# HUSKY OIL 1972 ANNUAL REPORT




1938-1973 35 years

**ANNUAL MEETING** The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Palliser Hotel in Calgary, Alberta, at 3:00 p.m. on April 27, 1973. Formal notice of this meeting and proxy material are enclosed.

THIS ANNUAL REPORT records the results of Husky Oil's 35th successful year of operation. Beginning at Cody, Wyoming, on January 1, 1938, with a small skimming plant and one oil lease as its total assets, Husky has grown into a large North American integrated independent oil company. The company is proud to occupy a unique position in carrying on approximately equal operations on both sides of the peace boundary which joins Canada and the United States.

In the picture below the late V. M. Kirk (left) and Glenn E. Nielson, founder and present board chairman of Husky, are shown as they made official the transfer of the Park Refining and Cody Petroleum properties to the new owner. This was the birth of Husky Oil.


1938-1973 35 years

## Highlights of Operations

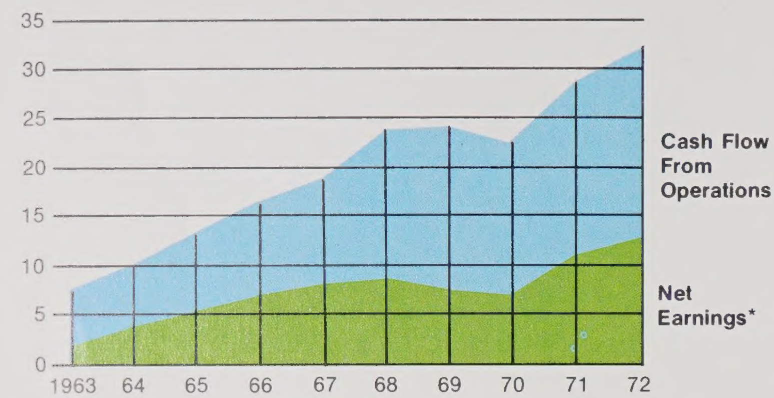
| FINANCIAL | 1972 | 1971 | 1960 |
|---|---|---|---|
| Gross operating revenues | $201,726,000 | $184,185,000 | $38,271,000 |
| Cash flow from operations | 33,429,000 | 29,282,000 | 5,255,000 |
| Net earnings (loss): | | | |
| From operations | 12,460,000 | 10,915,000 | (2,215,000) |
| Extraordinary items — net | 2,604,000 | — | — |
| Total | 15,064,000 | 10,915,000 | (2,215,000) |
| Per common share: | | | |
| Cash flow from operations | $3.48 | $3.04 | $0.86 |
| Net earnings (loss): | | | |
| From operations | $1.25 | $1.09 | $(0.41) |
| Extraordinary items—net | 0.28 | — | — |
| Total | $1.53 | $1.09 | $(0.41) |
| Growth expenditures | 34,815,000 | 34,656,000 | 12,087,000 |
| Working capital at end of year | 28,782,000 | 15,999,000 | 8,924,000 |
| Long term debt at end of year | 98,252,000 | 111,144,000 | 29,686,000 |

| OPERATIONS | 1972 | 1971 | 1960 |
|---|---|---|---|
| Crude oil and equivalent gas production (barrels daily) | 46,663 | 42,874 | 9,477 |
| Refinery runs (barrels daily) | 48,624 | 50,185 | 14,000 |
| Refined product sales (barrels daily) | 55,330 | 53,285 | 15,921 |
| Number of sales outlets | 1,488 | 1,540 | 524 |

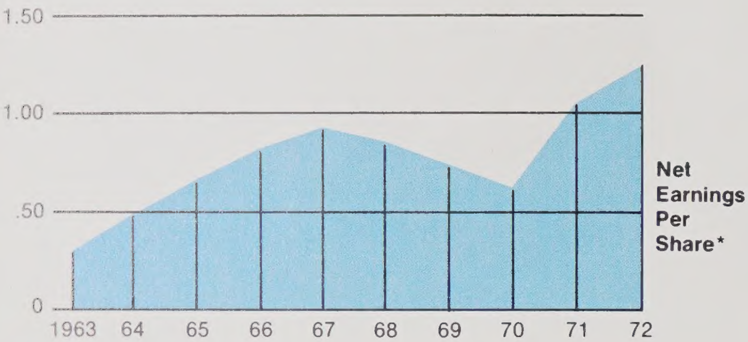
SMITH GRANT MANN ALBERTA
Litho'd in Canada

## FINANCIAL SUMMARY

MILLIONS OF DOLLARS



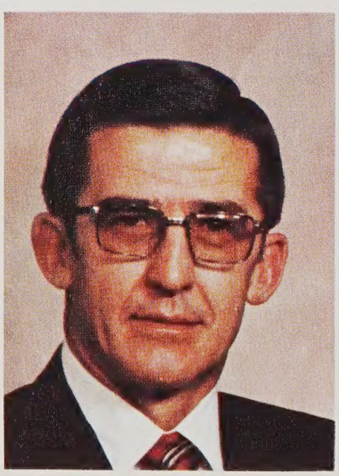

DOLLARS




*Earnings from operations before extraordinary items.

# TO OUR SHAREHOLDERS

GLENN E. NIELSON



JAMES E. NIELSON

1972 WAS ANOTHER RECORD YEAR FOR HUSKY. Total earnings were $15.1 million, of which $12.5 million were from normal operations. This is the equivalent of $1.53 and $1.25 per share, respectively.

Husky's long term debt was reduced from $111.1 million to $98.3 million. This was the first reduction since 1965. Our long term debt is in a very manageable position and, with increased cash flow, our company is capable of financing substantial exploration and other growth expenditures.

With the recent changes in management, it would seem well to review the operations of the last twelve years, since the United States and Canadian Husky companies were combined in June of 1960, and to evaluate the policies which were adopted following the merger.

At that time:

1. Total production averaged 9,500 barrels per day;
2. Refining operations consisted of four small plants with a combined capacity of about 20,000 barrels per day;
3. Sales outlets numbered 524 and refined product sales averaged 15,900 barrels per day;
4. In 1960, the two companies showed a combined loss of $2.2 million and cash flow for exploration was almost non-existent;
5. Losses from Gate City Steel and other subsidiaries aggregated $640,000.

After a careful assessment of our position, and with the object of growth in all phases of operation, the following policies and programs were adopted:

1. Consolidate and reorganize management into a streamlined and growth oriented team;
2. Give priority to the acquisition of sufficient additional crude oil production to equal our refining capacity; this to be accomplished by purchase, merger or exploration;
3. Upgrade and modernize refining and marketing facilities and bring production, refining and marketing into balance;
4. Retain Gate City Steel because of its earning capacity and encourage that company to expand its operations with a minimum of financial help from Husky.

Management is gratified to report that Husky has not only expanded its oil operations to 50,000 barrels per day, but has achieved an exceptionally well-balanced position as to volumes of production, refining and marketing. The only element of imbalance is that approximately

three-fourths of our production is in Canada and three-fourths of the refining and marketing facilities are in the United States.

To assist in correcting this imbalance, contracts have been negotiated with certain producers in the Uinta Basin area of eastern Utah. These contracts give Husky the right to purchase the total production from present and future oil wells drilled in the area by these producers. This right to purchase oil continues as long as the wells are capable of producing. The productive life of these wells is anticipated to be 10 or more years with combined total volumes ranging from 15,000 to 25,000 barrels per day.

Vigorous exploration activity is seen by management as a permanent part of Husky's future. The energy shortage and increased crude prices will stimulate ventures into new areas, particularly offshore, and the prospect of improved returns will allow for careful re-examination of all energy possibilities. The time is rapidly approaching when Husky's 50,000 acres in the tar sands of northern Alberta may begin to contribute dramatically to increased production.

The United States energy shortage has focused particular attention on the substantial land positions held by Husky in the Denver-Julesburg Basin in Colorado and the Green River Basin in Wyoming. Very favorable farmout arrangements have been negotiated in both areas.

The ten to fifteen gravity oil underlying Husky's Lloydminster acreage holds promise of becoming a major source of energy. Our engineers are encouraged by the response of this area to secondary recovery methods. The two experimental fireflood projects are now in their third year and continue to be encouraging.

Improved operating performance in both marketing and refining is contributing significantly to Husky's earnings. Management considers these operations to be an important source of earnings that will enlarge the companys' financial base for future growth.

Husky in 1973 is in an excellent position to pursue aggressively a program for long term growth and profitability. We reaffirm the sound policies adopted in 1960. We are continuing to give priority to exploration and production and the acquisition of crude oil and gas reserves in both Canada and the United States. In addition, our scope of exploration interest has extended to attractive geological areas located in politically stable countries overseas.

We are interested in all sources of energy and natural resources that come within the capabilities of our management. To further this ambitious program, we are inviting outside capital to participate with us.

Husky's policy in 1973 will be, as it has been in the past, to create operational guidelines and programs to serve the energy needs of North America through exploration, production, refining and marketing. A special challenge will be the achievement of this objective with responsible concern for the well being of others and for the preservation of our environmental heritage.

Husky management looks to the future, confident that we will successfully meet that challenge and that we will continue to capitalize on our opportunities.

GLENN E. NIELSON Chairman of the Board

JAMES E. NIELSON President

**James E. Nielson Appointment**

On January 12, 1973, the board of directors elected James E. Nielson president of Husky Oil Ltd. He will continue as a member of the board.

James Nielson began working for Husky between terms in high school, and, aside from time at college and in naval service, his entire adult life has been spent with the company.

From 1958, when he joined Husky on a full-time basis, James Nielson has worked in all major departments of the company and in recent years he has assumed an increasing range of management and administrative responsibilities in the company.

As president of Husky Industries, Inc., he gained valuable experience and had full responsibility for all facets of a business operation. During its formative years from 1963 to 1970, he established a fully integrated briquet operation involving mining, manufacturing, distribution and marketing operations. Over this period, the wholly owned subsidiary evolved from a one plant operation into the second largest concern of its type in North America. Husky Industries now shows promise of becoming a meaningful contributor to Husky's earnings.

In 1971 he became executive vice president with responsibility for exploration and production. Husky has since significantly increased its position in developing international exploration areas.

Thus Jim Nielson (as he is known to his friends and associates) brings to the presidency of Husky solid experience and overall operational knowledge together with a particular interest in exploration and production.

To implement his policies of aggressive exploration activity, he has re-organized the exploration department and has established a special exploration team. The team will review and manage present and future international projects. It will also review and evaluate any large acquisitions or exploration programs in the United States and Canada.

DURING 1972, Husky broadened its international land position outside North America to more than eight million gross acres. Together with increased North American holdings, the company begins 1973 with interests in more than 25 million gross acres with oil and gas exploration potential. Husky's net position, arising from various participations with exploration groups, is 6.6 million acres.

At the close of 1972, the company completed a major reorganization of the exploration department. Management and personnel have been assigned to new responsibilities on the basis of major exploration emphasis in the immediate future. A special team, experienced in the evaluation of potential international petroleum areas, has been established to manage and evaluate Husky's present participation in international exploration plays in various developing areas of the world, and to conduct negotiations leading to further acquisitions throughout the 1970's. The team will also review major North American exploration.

In the North Sea, Husky, acting with two separate groups, increased its land position with successful submissions resulting in acquisitions involving ten German offshore blocks. The first award gives the company a 12.5 per cent interest in 3 blocks covering 118,000 acres. Net interest in the second award is 15 per cent in seven blocks involving 592,000 acres, located somewhat closer to shore in relatively shallow waters. Seismic work, completed on the first award acreage, is being evaluated. Another seismic survey was well under way on the other seven German blocks at year end. A successful bid resulted in a 15 per cent interest in two blocks totaling 73,000 acres in Dutch North Sea waters.

Of Husky's participation in 1.2 million gross acres of North Sea permits, a ten per cent interest with the Sea Search group in four blocks or 220,000 gross acres in the United Kingdom sector is presently of special interest. These blocks are within the general area of discoveries announced in 1972 and earlier. Detailed seismic shooting has been completed and evaluation is in progress.

A rig capable of operating in 300 to 600 foot depths and in North Sea conditions is under construction and is contracted to Husky and its partners for drilling planned late this year. Construction delays could, however, force postponement of deep drilling until early 1974 since demand for this type of rig is exceeding supply. A lag in availability is probable for most of 1973. Rigs are available for drilling in the relatively shallow water of the southern gas area of the United Kingdom sector and a well is scheduled to start by September. Afterwards, the same rig may be retained and used for drilling on the 118,000 acre block in the German sector.

Husky's close attention to North Sea events will continue through 1973 in addition to its significant exploration activity in North America.

**North America** In the Green River basin in Wyoming, the company has more than 200,000 net acres. The most significant discovery in the Rocky Mountain area in 1972 was a well drilled in the Green River basin. In Colorado, Husky has approximately 50% interest in 300,000 acres in the Denver-Julesburg basin.

During the year Husky was again active in exploratory drilling, alone and in participation with others on a farm-out basis. In most farm-out arrangements, exploratory wells are drilled free to Husky on Husky acreage. Husky's interest in successful results is usually 50 per cent with the remaining 50 per cent interest owned by the other participants.

As a consequence of energy shortages, Husky has been able to negotiate favorable farm-out arrangements with provisions for the company's interest to become, in some circumstances, 75 per cent.

# REVIEW OF OPERATIONS

## EXPLORATION

*Exploration drilling in the Alberta foothills.*

## EXPLORATORY ACREAGE HOLDINGS AND RIGHTS
ON DECEMBER 31, 1972

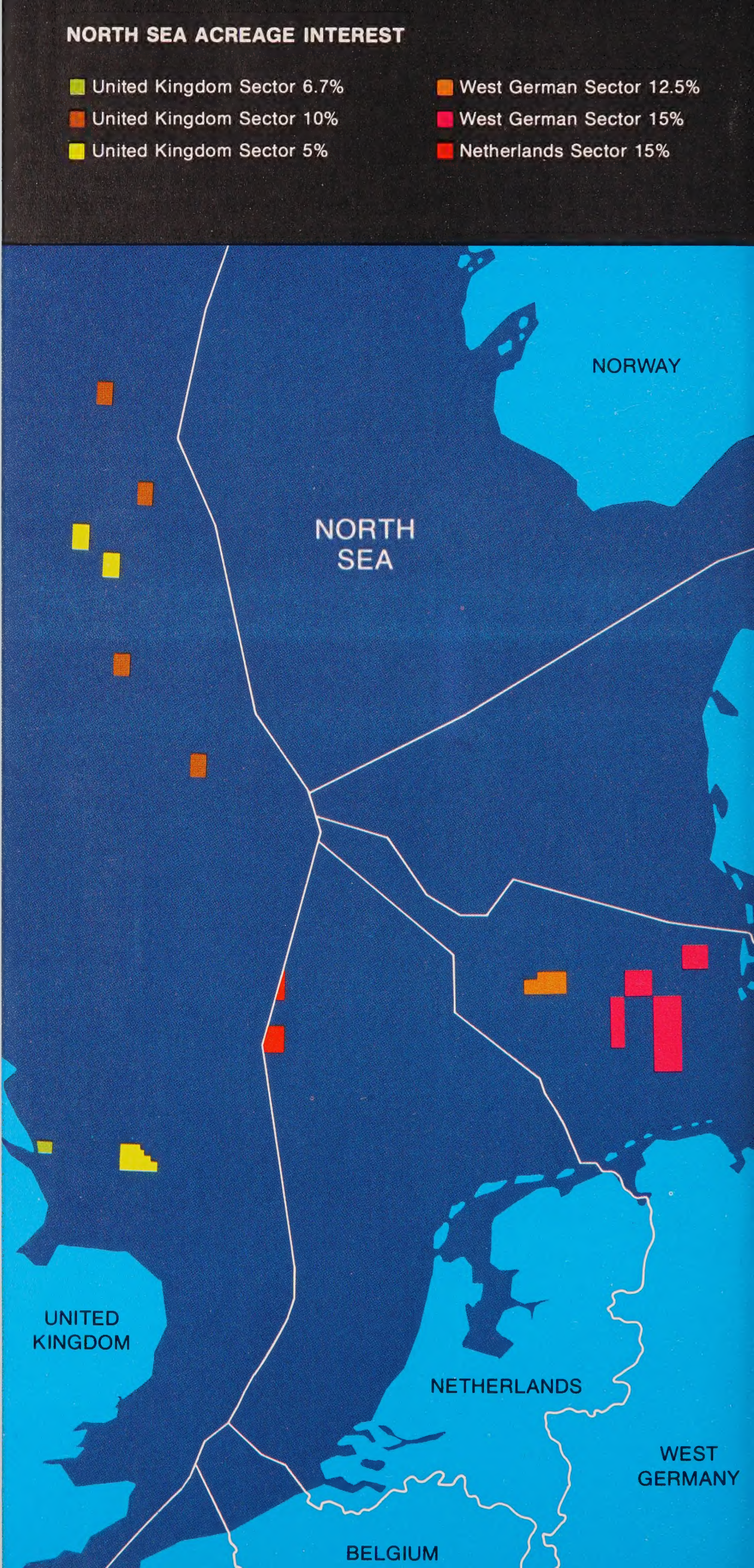
### Oil and Gas Properties

| | THOUSANDS OF NET ACRES |
|---|---|
| **Canada** | |
| Alberta | 1,009 |
| Arctic Islands | 130 |
| British Columbia | 62 |
| Newfoundland | 652 |
| N.W.T. and Yukon | 747 |
| Nova Scotia | 532 |
| Quebec | 171 |
| Saskatchewan | 1,014 |
| Total Canada | 4,317 |
| **United States** | |
| Alaska (1) | 231 |
| Rocky Mountain Areas | 611 |
| Southwestern States | 8 |
| Other Areas | 20 |
| Total U.S.A. | 870 |
| **Foreign** | |
| Guyana | 396 |
| Madagascar | 855 |
| North Sea | 148 |
| Sicily | 12 |
| Total Foreign | 1,411 |

(1) 231,000 net acres are subject to issuance of leases.

### Mining Claims and Permits

| | THOUSANDS OF NET ACRES |
|---|---|
| **Canada** | |
| British Columbia | 1 |
| N.W.T. and Yukon | 106 |
| Saskatchewan | 68 |
| Total Canada | 175 |
| **Australia** | |
| New South Wales | 144 |
| Northern Territory | 841 |
| Total Australia | 985 |



A farm-out arrangement to another company involving 26,000 acres in the Wattenburg field just north of Denver, Colorado, was concluded in July. The agreement provides for that company to drill 25 initial wells free to Husky. Options are available to the company to increase its drilling activity to a total of 81 wells.

Husky has a royalty interest in the acreage and, with its partners, has the right to convert that royalty interest to a 75 per cent working interest in each successful well.

Of the wells drilled, all have resulted in gas shows and all have been cased. Testing is presently going forward and the other company has exercised its option to drill a second series of 25 wells under the same terms. The agreement provides for the other company to elect to drill one further series of 31 wells.

Husky participated in 71 gross exploratory wells in conjunction with the drilling fund and with other partners in 1972. Results are two gas wells and one oil well in Saskatchewan, two gas wells in Alberta, one gas well in British Columbia, one gas well in New Mexico and one oil well in Montana.

Eighteen other gross exploratory wells, which had been started in 1972, were still in progress at year end. Of these, ten are in Lloydminster and are indicated discoveries which should be completed by mid-1973 as seven oil wells and three gas wells. The remaining eight wells continuing in progress past the year end resulted in one indicated gas well in Canada and one indicated oil well in the United States. These two wells are being evaluated.

A decision, which was expected to have been handed down by now in the lawsuit instituted by Husky and its partners against the U.S. Government in relation to Santa Barbara leases, is still pending.

North American drilling activity in 1973 is scheduled for balanced expansion with a sustaining program in Canada to be bolstered by additional exploratory drilling in the United States.

**Drilling Fund** Three million dollars paid into the drilling fund remains to be spent in 1973. With this expenditure, drilling fund exploratory activities will be completed.

Since its inception in 1970, the drilling fund, in participation with Husky, drilled 107 development wells in the Lloyd minster area. All of these are producers and are owned 50 per cent by Husky and 50 per cent by the drilling fund partners.

In other areas of North America, Husky and the drilling fund completed ten wells. Husky's net interest in these wells is 30 per cent until payout. After payout the limited partners in the drilling fund and Husky share equally in a full interest in the wells.

**Other Off-shore** Overseas, Husky's exploration program has been directed towards the acquisition of off-shore permits. As a result the company now participates in Mediterranean Sea acreages, in off-shore Guyana acreages and in several blocks off Canada's east coast. In North America, the company has sold its participation in a group preparing to bid on Texas off-shore acreage at a forthcoming Federal sale.

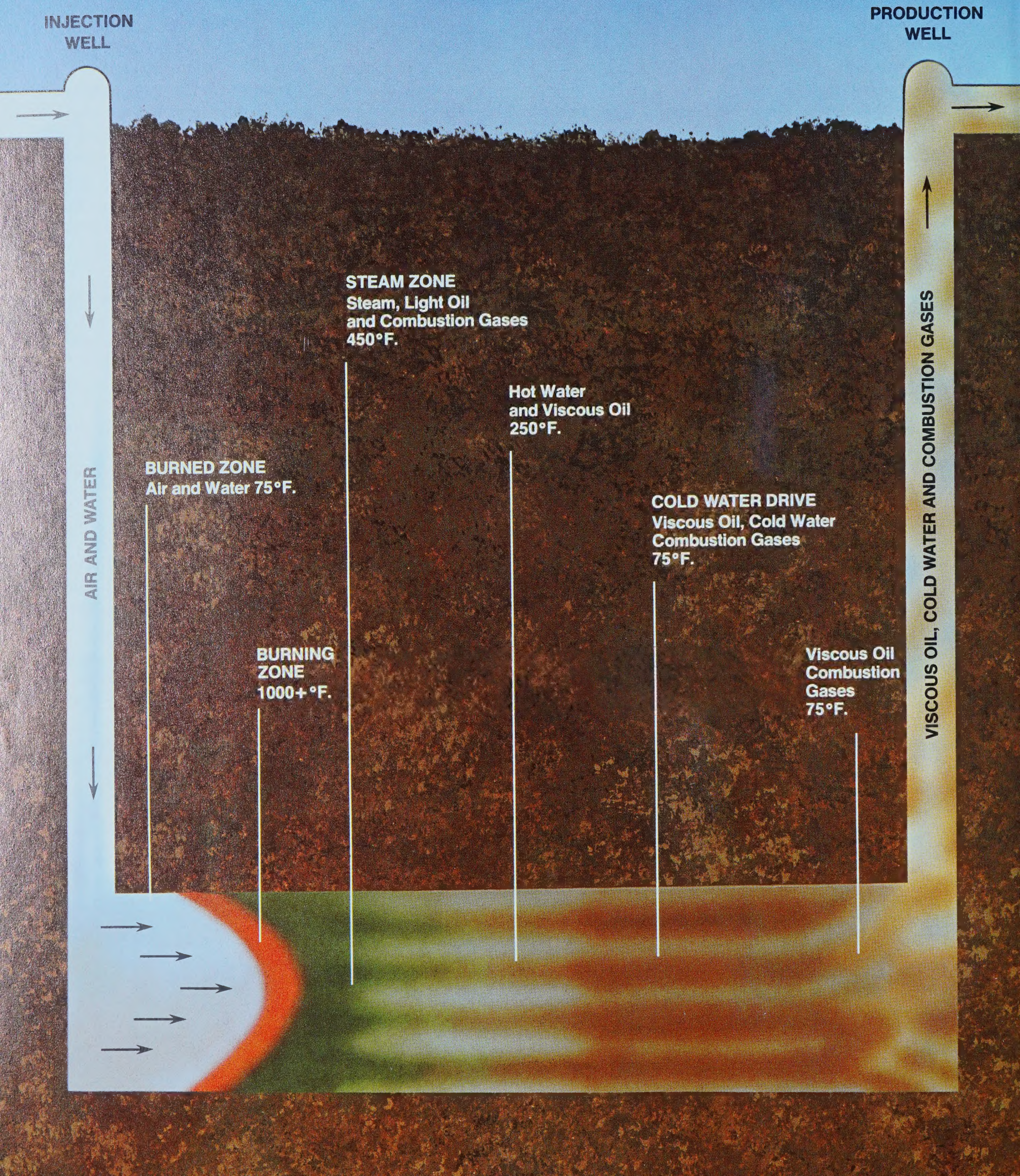
Husky has a total off-shore gross exploration exposure, excluding off-shore Madagascar, in excess of 7.2 million acres.

**Mineral Activities** Exploration of hard rock mineral properties during 1972 included airborne remote sensing, geological mapping, geochemical and geophysical surveying, on-site prospecting and diamond drilling. Generally, these programs were conducted in association with other companies.

On the basis of encouraging results from the hard core drilling program in Northern Saskatchewan reported a year ago, the company has begun active negotiations with several mining companies. These companies will earn an interest in approximately 120,000 acres by assuming the costs of further, more extensive exploration work.

In Australia, exploration continued on 4.3 million gross acres in the northern territories and in New South Wales. Diamond coring near Barrow Creek in the northern territories verified a copper-nickel occurrence. Properties near Barrow Creek will be further evaluated in 1973 together with properties farther north, near Darwin, where interesting radioactive traces have occurred.

# COMBINATION THERMAL RECOVERY PROCESS



## PRODUCTION

RECORD OIL AND GAS equivalent production volumes of 46,700 barrels per day in 1972 were up from 42,900 barrels per day in 1971. The improvement resulted mainly from increases at the Lloydminster and Wainwright heavy oil producing areas from 20,100 to 22,000 barrels per day over the year. Most of the remaining production increase was the result of increased allowables in Alberta and came primarily from the Westerose and Sturgeon Lake fields.

Husky participated in a total of 194 gross wells continuing an active drilling program in 1972. Of these, 152 were drilled in Canada and 42 were drilled in the United States.

The on-going development drilling program in the Lloydminster area of Alberta and Saskatchewan resulted in 80 wells drilled. Seventy-three were completed as producers.

A substantial, sustained program of successful production drilling is required every year to meet the demand for crude oil and natural gas created by Husky's own gathering and delivery systems. In 1972, with total production volumes in excess of 17 million barrels, the production department met that objective and added an increase.

Husky's program of research and development in secondary recovery techniques in the heavy oil producing area of Lloydminster continued to show encouraging results in 1972. In 1973, experimental in situ combustion projects will continue at Aberfeldy, which covers some 600 acres, and at Golden Lake. Golden Lake, which is a smaller scale pilot project dealing with a lower gravity oil, has also shown promise and will be expanded in 1973.

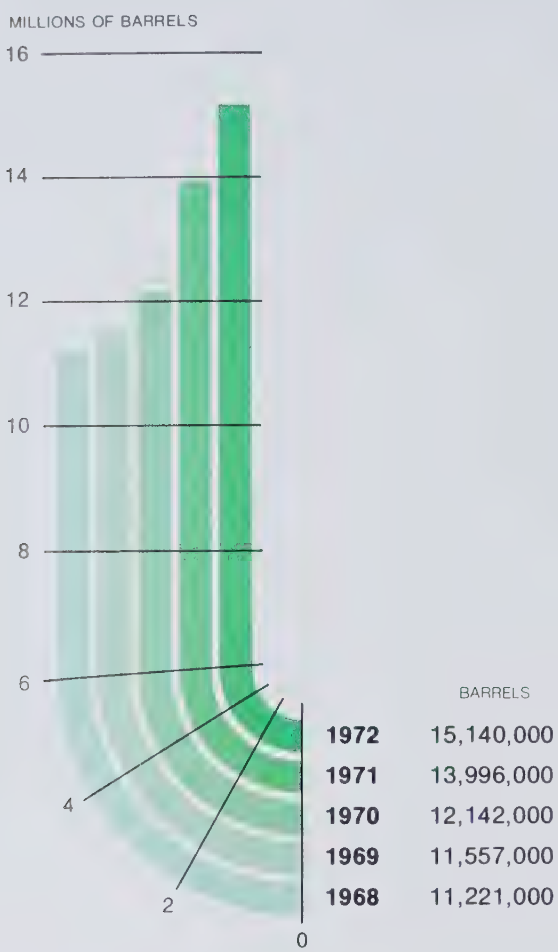
Husky has one and one-half to two billion barrels of heavy oil in place in the Lloydminster area, and the fireflood or in situ combustion activity, together with other secondary recovery techniques, is directed at improving the percentage of recovery. Laboratory research, field tests, and other experiments in secondary recovery are continuing.

Also at Lloydminster, an in-fill drilling program begun in 1971 and continued through 1972 will be extended in the forthcoming year. Wells at Lloydminster had originally been spaced on a 40 acre basis and the in-fill program is continuing to reduce the spacing to 20 acres with improved recovery and production results.

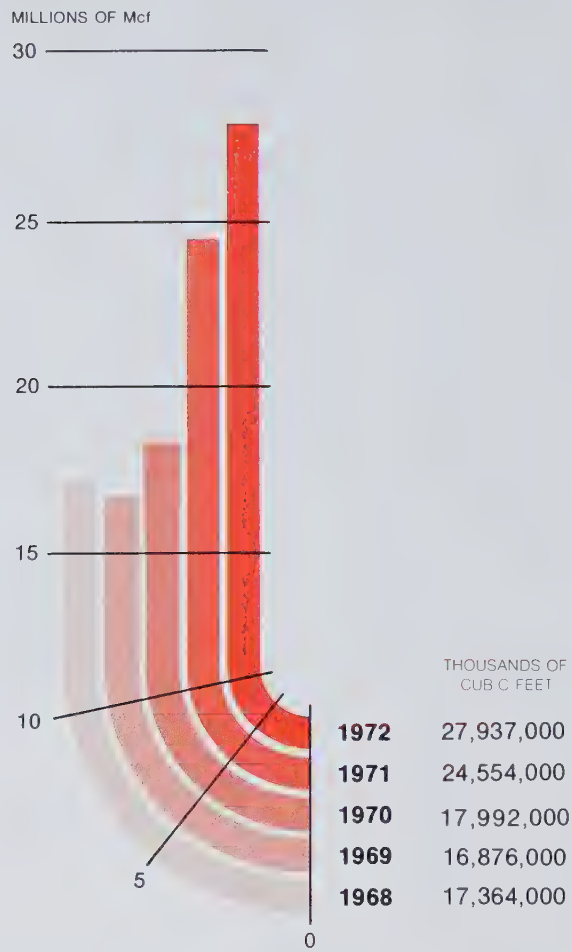
Price increases of more than 50 per cent have been negotiated on 16 per cent of Husky's Canadian gas production and provision has been made for further price re-determination after July 1, 1974. Another 28 per cent of the company's Canadian gas was also subject to negotiation of a new price which will be effective January 1, 1973.

*In situ combustion recovery, sometimes referred to as fire-flood, essentially consists of controlled ignition and burning of a small portion of the oil below the surface. Increased pressures from injected air and movement of the burning front help to push heavy oil towards the producing well bore. Combustion ceases any time that injection of air is discontinued.*

## NET PRODUCTION CRUDE OIL AND GAS LIQUIDS




## NET PRODUCTION NATURAL GAS





Productive Areas — As of Dec. 31, 1962 Additions — To Oct. 1, 1972

In the latter part of 1972, the Alberta government called for an immediate advance in natural gas prices to be followed by a general re-examination of long term production and price planning.

Increasing demands for oil and gas in the United States and Canada resulted in Canadian crude price improvements in late 1972 and early 1973 of a total of 30 cents a barrel.

Benefits from improved crude oil and gas prices and the favorable effect of the Alberta government position will be offset, to some degree, by increased royalty rates on both oil and gas. Departmental cash operating income before unallocated items from production operations was $30.5 million in 1972.

The outlook for 1973 is promising. Drilling and production are anticipated at levels equal to or in excess of past years' figures. Despite increased royalties, price improvements should contribute significantly to the over-all profit picture.

## NET OIL AND EQUIVALENT NATURAL GAS PRODUCTION

| | THOUSANDS OF BARRELS 1972 | 1971 |
|---|---|---|
| **Canada** | | |
| Alberta | 4,332 | 3,622 |
| Lloydminster | 6,949 | 6,254 |
| Saskatchewan | 1,140 | 1,091 |
| Total Canada | 12,421 | 10,967 |
| **United States** | | |
| Colorado | 374 | 279 |
| Montana | 163 | 158 |
| New Mexico | 691 | 734 |
| Texas | 438 | 387 |
| Wyoming | [illegible] | 2,797 |
| Other Areas | 270 | 327 |
| Total U.S.A. | 4,611 | 4,682 |
| Total | 17,032 | 15,649 |

## NET OIL AND GAS PRODUCTION

| | Oil and Gas Liquids THOUSANDS OF BARRELS | | Natural Gas MILLIONS OF CUBIC FEET | |
|---|---|---|---|---|
| | 1972 | 1971 | 1972 | 1971 |
| **Canada** | | | | |
| Alberta | 3,110 | 2,572 | 17,109 | 14,696 |
| Lloydminster | 6,860 | 6,194 | 1,249 | 840 |
| Saskatchewan | 1,047 | 1,019 | 1,296 | 1,012 |
| Total Canada | 11,017 | 9,785 | 19,654 | 16,548 |
| **United States** | | | | |
| Colorado | 371 | 276 | 45 | 51 |
| Montana | 163 | 158 | | 2 |
| New Mexico | 455 | 477 | 4,011 | 4,377 |
| Texas | 379 | 323 | 1,006 | 1,075 |
| Wyoming | 2,512 | 2,658 | 2,769 | 2,357 |
| Other Areas | 243 | 319 | 452 | 144 |
| Total U.S.A. | 4,123 | 4,211 | 8,283 | 8,006 |
| Total | 15,140 | 13,996 | 27,937 | 24,554 |

## SUMMARY OF WELLS DRILLED IN 1972

| | Gross Wells | | | |
|---|---|---|---|---|
| | Oil | Gas | Dry | Total |
| Exploratory Drilling | 2 | 6 | 63 | 71 |
| Development Drilling | 182 | 2 | 10 | 194 |
| Total Drilling | 184 | 8 | 73 | 265 |

| | Net Wells | | | |
|---|---|---|---|---|
| | Oil | Gas | Dry | Total |
| Exploratory Drilling | 1.0 | 1.7 | 31.2 | 33.9 |
| Development Drilling | 82.6 | 0.7 | 7.5 | 90.8 |
| Total Drilling | 83.6 | 2.4 | 38.7 | 124.7 |

COMPLETION OF THE modernization program at the Cheyenne, Wyoming refinery was a successful company highlight of 1972. Improved facilities contributing to the significant upgrading of general refinery capability include alkylation and butamer units and a new high severity catalytic reformer.

The modifications, effected at a final cost in excess of $11 million, are the implementation of plans formulated to improve standards and variety of end-products and for a marked increase in plant flexibility.

The refinery is now able to accept more kinds of crude and to produce saleable products with greater efficiency.

Today, the Cheyenne refinery is the leader in the inter-mountain area of the United States in production capability of low lead and no lead gasolines of the quality to be required by federal regulations. A smokeless flare and other pollution abatement measures ensure the operation of the refinery at the standards required by other pollution control regulations.

Modifications to bring the Cody, Wyoming refinery to similar improved standards with increased plant flexibility and with operation to meet the same pollution control regulations are now in planning. Expenditures at Cody will be notably lower than those required at Cheyenne and are projected at about $1 million.

Refinery through-put in 1972 was down slightly to 48,600 barrels per day from 50,200 barrels per day the

## REFINING AND MARKETING

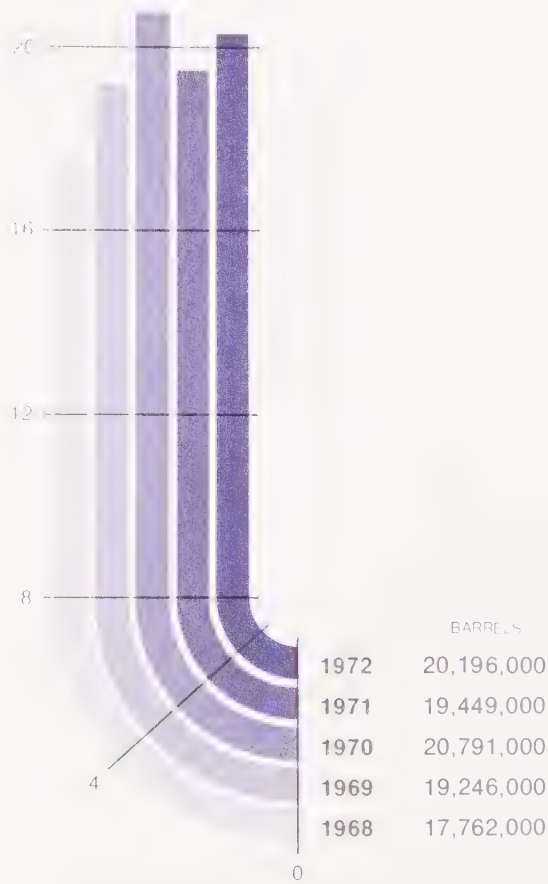
## REFINERY RUNS

THOUSANDS OF BARRELS

| | 1972 | 1971 |
|---|---|---|
| **Refinery:** | | |
| Cheyenne, Wyoming | 6,949 | 6,793 |
| Cody, Wyoming | 4,034 | 4,163 |
| Lloydminster, Alberta | [illegible] | 2,416 |
| Moose Jaw, Saskatchewan* | [illegible] | 1,050 |
| Salt Lake City, Utah | [illegible] | 3,896 |
| | [illegible] | 18,318 |

## REFINED PRODUCT SALES

MILLIONS OF BARRELS




*Cheyenne, Wyoming Refinery*


HUSKY
CAFE
HUSKY


GOODYEAR TIRES

previous year, as a result of closing the Moose Jaw refinery in late 1971.

Over the years, Husky has planned for, and has achieved, a balance of production capacity with refining through-put although the company has been tending to market somewhat higher volumes. In view of tightening petroleum supply and as a result of current aggressive programs, Husky believes marketing, refining, and supply and distribution will contribute an increasing share to over-all earnings.

Departmental cash operating income from refining and marketing in 1972, before unallocated items was $15.3 million.

Continued emphasis in marketing strategy has been on expansion of high gallonage highway-located outlets covering a wide range of customer and service facilities. These outlets, which had been called travelcentres, offer—in addition to gasoline for the traveling motorist and fuel for the commercial trucker—complete service and accessories. The superiority of Husky house restaurants operated on a 24-hour basis in conjunction with the outlets has been an important contributing factor in their success.

Husky originally pioneered a truckstop program as a fueling stop of special convenience to commercial drivers. The stations included a restaurant, showers and sleeping quarters. Since then, the concept has been widened and other facilities have proved to be attractive to all of the traveling public.

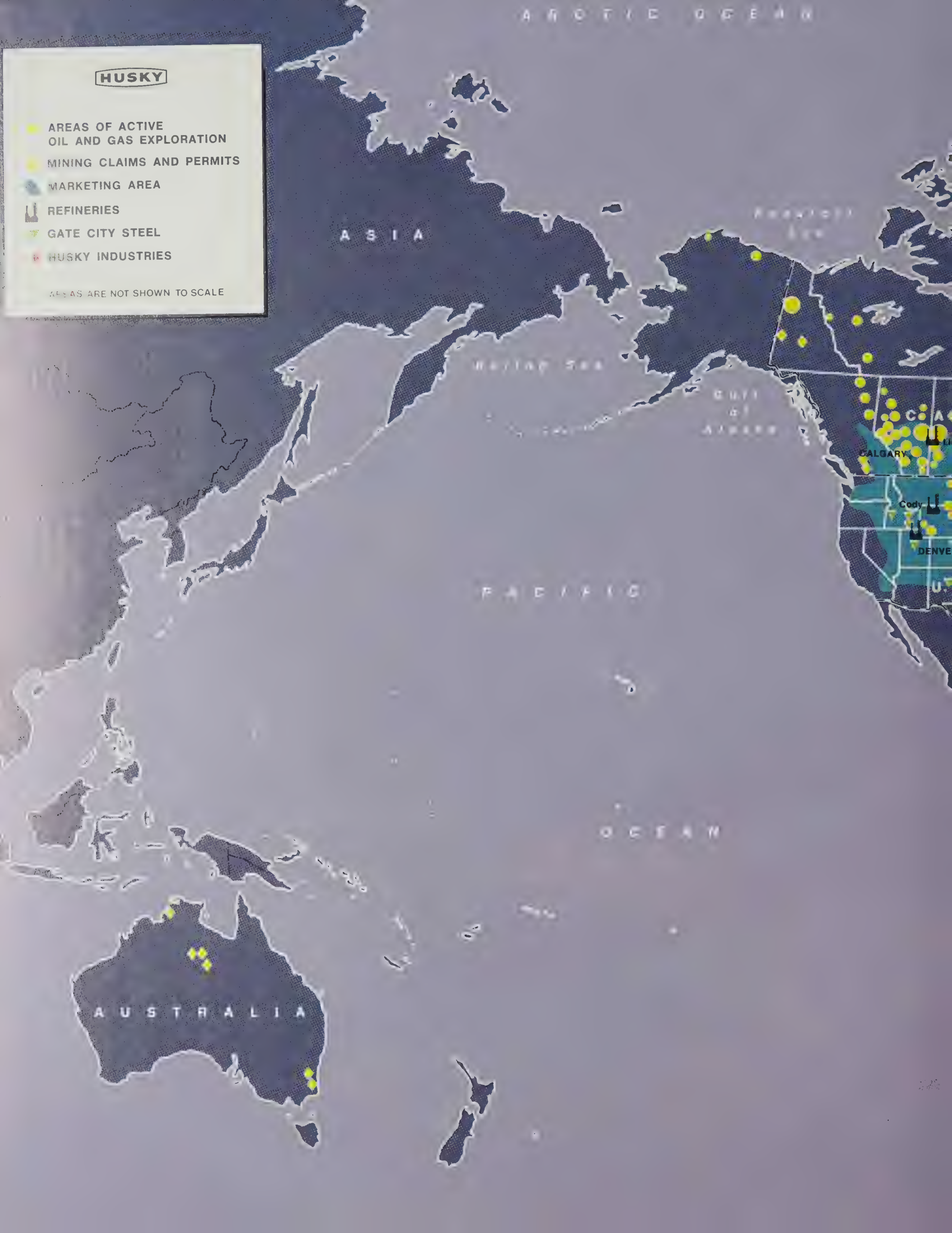
Now more aptly described as Car/truckstops, additional outlets are going up along the trans-Canada highway and major north-south routes in Canada. In the United States, Husky long-range plans are for the establishment of a chain of Car/truckstops at prime locations on the inter-state system.

Located out of urban areas, the new stations provide sanitary off-loading, propane, water and other facilities sought by owners of campers, trailers and motor homes, and Car/truckstops are showing growing patronage by recreational vehicle owners.

The expanded Car/truckstop program is moving ahead with new locations recently opened at Glendive, Montana, at Albuquerque, New Mexico, at Sault St. Marie, Ontario, and at Saskatoon and Prince Albert, Saskatchewan. Eight new Car/truckstops were opened in the United States and Canada in 1972, and six more will be opened during the early part of 1973 at Las Vegas, Nevada, at Limon, Colorado, at Barstow, California, at Gillette, Wyoming, at Tacoma, Washington, and at Summit, Utah.

Although budgets for this expansion are substantial, the high volumes marketed by these stations and an acceptable return on investment are the basis for continued emphasis on the program.

Another advantage in locating these stations away from high density population areas is reduced susceptibility to price deterioration or instability. The Car/truckstop program is, therefore, progressing on two important marketing fronts. The program creates high gallonages-per-station with attendant efficiencies and improved economics and, at the same time, enhances the over-all quality of Husky's marketing facilities.



HUSKY
AREAS OF ACTIVE OIL AND GAS EXPLORATION
MINING CLAIMS AND PERMITS
MARKETING AREA
REFINERIES
GATE CITY STEEL
HUSKY INDUSTRIES
ARE NOT SHOWN TO SCALE
ARCTIC OCEAN
ASIA
Bering Sea
Gulf of Alaska
CALGARY
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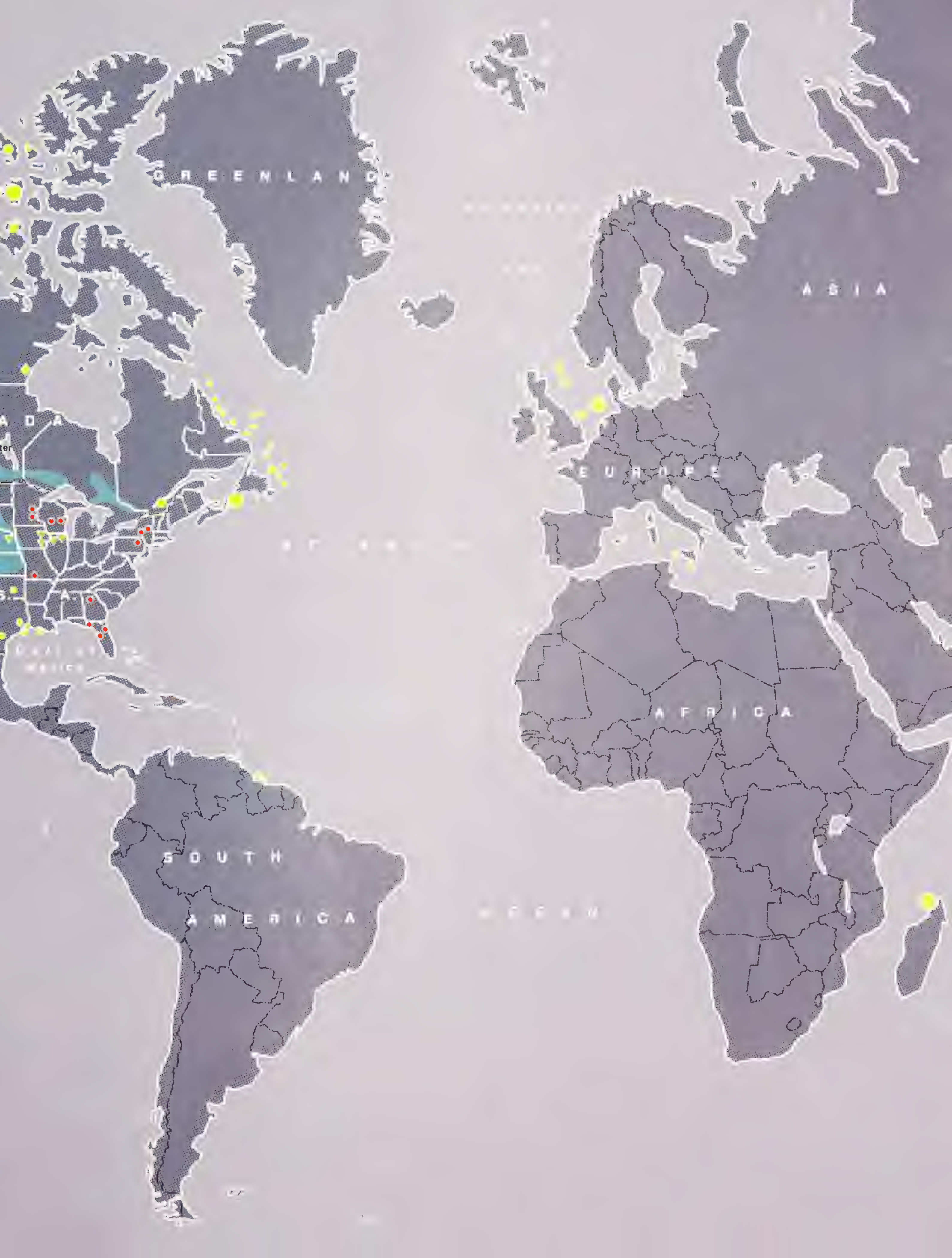
OCEAN
AUSTRALIA


GREENLAND
ASIA
EUROPE
AFRICA
SOUTH AMERICA

GATE CITY STEEL headquartered in Omaha, Nebraska, reported record sales revenues in 1972 of $31.9 million. Earnings before taxes were also a record at $2.3 million up from $1.7 million in 1971.

During the year Husky increased its ownership of Gate City Steel and the company is now a wholly owned subsidiary.

Gate City Steel is becoming an increasingly important name in the Steel Service Center Industry. Operations include steel warehousing and distribution to a service area stretching from Chicago to Boise, Idaho, and Omaha, Nebraska, and south to Albuquerque, New Mexico.

Emphasis on continued upgrading of servicenter facilities and other industrial steel activities for complete market coverage in areas adjacent to plant locations continued. Management strategy and effort was concentrated towards improving existing marketing programs as growth objectives are towards contiguous markets.

Again in 1972, Gate City Steel demonstrated industry leadership in earnings, sales, and in return on investment. Market conditions for 1973 appear very encouraging and the company expects to continue increased sales and profits in 1973.

## SUBSIDIARY OPERATIONS

**GATE CITY STEEL**
THE GOOD SERVICE PEOPLE

*These pictures of steel facilities include a new bar warehouse and stacker rack system in Davenport, Iowa; one of Gate City's eight torch co-ordinating drive gas cutting machines; 150-ton and 400-ton punch presses installed at Omaha in 1972; and a new sheet warehouse and sheet stacker system shown together with high-speed shears.*

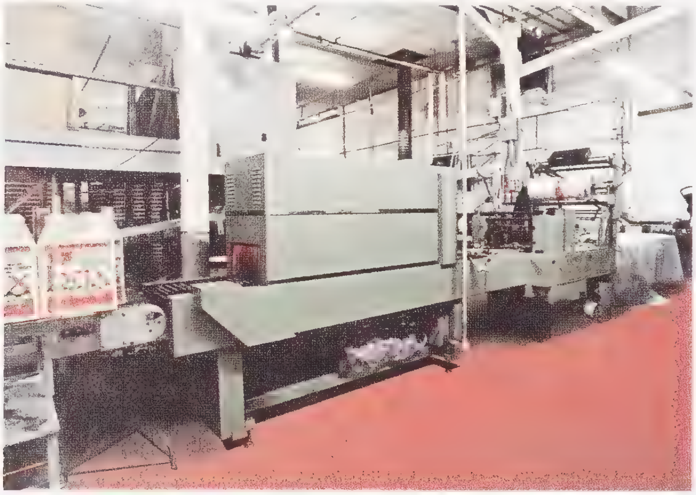

BROIL
BEST
charcoal
BRIQUETS
Sparky
BLENDED HA
CHARC
HAVE YOU TRIED
brix?
Grill Time
CHARCOAL
SMOKEY
BEAR
firepl
log
Star Grill
CHARCOAL
BRIQUETS
HARDWOODS
SMOKEY
BEAR
SMOKEY
BEAR
HUSKY
GRILLE LINER
SMOKEY
BEAR
GRILLE LINER
NET WEIGHT 20 POUNDS
Husky Brand · Premium Quality
CHARCOA
BRIQUET
SMOKEY
BEAR
Instant Lighting
CHARCOAL

A 14 PER CENT INCREASE in cash operating income reflected continued market penetration in 1972 although Husky Industries profit margins were lower than anticipated partly as an effect of the U.S. price freeze. Upward repricing in the current marketing season should have beneficial effect in 1973.

With a view to added efficiencies flowing from consolidation of key employees previously located in Colorado, Florida, Minnesota and Wyoming, Husky Industries' corporate offices were relocated from Cody to Atlanta during 1972. Eighty-five per cent of sales are east of the Mississippi, and the new location in Georgia assures closer coordination of plants and expanding market requirements.

Georgia Institute of Technology, one of the leaders in the field of carbon research and development in the United States, provides pollution control and other data on a royalty basis to a joint venture in which Husky Industries participates. Development has reached the production stage on a furnace which converts waste and other materials to quality carbon. It is anticipated that a number of these waste conversion furnaces will be located in peanut and lumber mills in South Georgia. Carbon converted from waste in these mills would be shipped to Husky Industries' Jacksonville and Ocala, Florida, plants for briquet manufacture.

Husky Industries manufactures a variety of consumer carbon products including several brands of briquets and quick lighting fireplace logs in addition to industrial carbons. Husky Industries' activated carbon is used in the treatment of municipal water supplies. Other applications in the rapidly expanding fields of activated carbon are being planned.



## SUBSIDIARY OPERATIONS
## HUSKY INDUSTRIES

SALES AND OPERATING REVENUES, cash flow and net earnings all set new records for Husky in 1972 for the second consecutive year. Net earnings from operations increased to $12.5-million from $10.9-million in 1971. Earnings per share from operations were $1.25, an increase of 15 per cent from the $1.09 earned in 1971 and also represent an historical high for the company. Cash flow from operations in 1972 was $33.4-million, or $3.48 per share compared with $3.04 per share in 1971, up 14 per cent. Sales revenues increased to $202-million, an improvement of ten per cent over 1971. Net profit comparisons do not take into account the extraordinary items which added an aggregate of $2.6-million, or 28 cents per share, to the 1972 earnings.

Higher volumes and prices for crude oil production and for asphalt sales, together with new highs for revenues and profits from steel operations were the major contributors to the increase in revenues and profits, although all operating areas of the company reported improvements over last year.

A comparative analysis by lines of business for 1972 and 1971 of sales and gross revenues and of income before income taxes and extraordinary items, is set out in the accompanying table:

FINANCIAL

| Lines of Business | 1972% | | 1971% | | Increase (Decrease) | |
|---|---|---|---|---|---|---|
| | Sales | Income | Sales | Income | Sales | Income |
| Petroleum production, refining and marketing | 77.6 | 85.6 | 80.4 | 83.9 | (2.8) | 1.7 |
| Steel warehousing, processing and other | 22.4 | 14.4 | 19.6 | 16.1 | 2.8 | (1.7) |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | | |

The principal reason for the profit increase of 1.7 per cent in the petroleum area was the significant (19%) improvement in departmental cash income from refining and marketing operations.

A decision was made not to re-instate the Huntsville, Ontario briquet plant as a manufacturing operation, after it was shut down by fire in 1971. The decision resulted in a provision for an expected loss on the disposal of the facilities in the amount of $587,000. This extraordinary charge, together with the extraordinary gain of $3.2-million on the sale of Husky's interest in Empire State Oil Company, combined for a net gain in 1972 from extraordinary items of $2.6-million.

## GROWTH EXPENDITURES

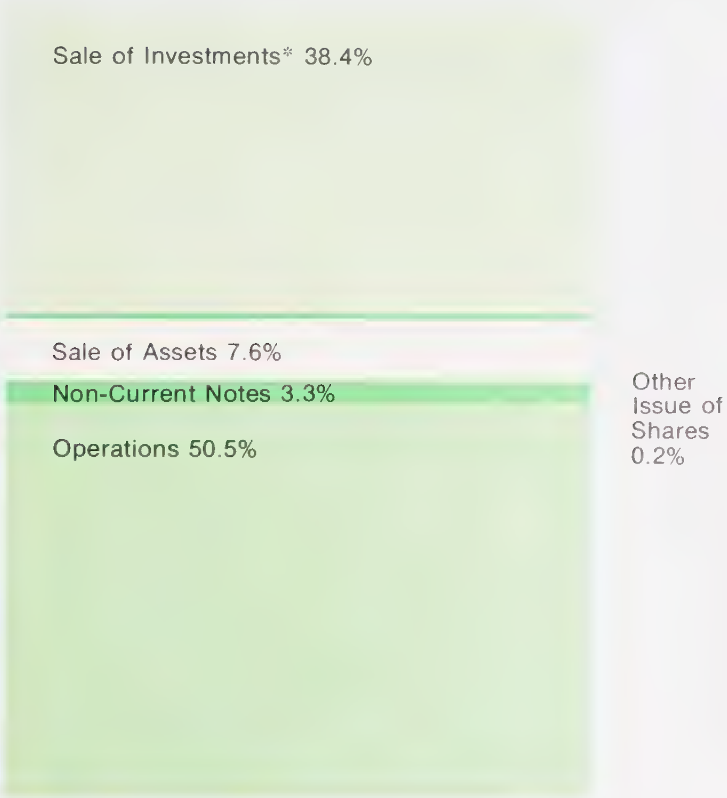
THOUSANDS OF DOLLARS

| | 1972 | 1971 |
|---|---|---|
| Exploration | $ 8,038 | $ 7,474 |
| Producing properties and pipeline facilities | 9,732 | 10,536 |
| Refining and marketing | 8,485 | 5,225 |
| Manufacturing and other | 1,756 | 6,337 |
| Investments and other acquisitions | 6,804 | 5,084 |
| | $34,815 | $34,656 |

Growth expenditures for 1972 of $35 million were approximately the same as in 1971. Exploration and development expenditures in 1972 together totaled $17.8 million. Of this amount $6.5 million related to continuing activities, largely of a developmental nature, at Lloydminster, and $11.3 million applied to other areas.

Excluding deferred credits, long term debt at year end aggregated $98.3 million compared with $111.1 million a year ago and decreased for the first time since 1965. The reduction resulted primarily from utilization of about $12 million of the sales proceeds received from our interest in Empire State Oil Company together with a rising cash flow which very nearly matched the total growth expenditures. Very long term obligations account for $78 million of the long term debt, and these obligations have annual sinking fund requirements averaging 2 per cent over the next five years.

## SOURCE OF FUNDS-1972

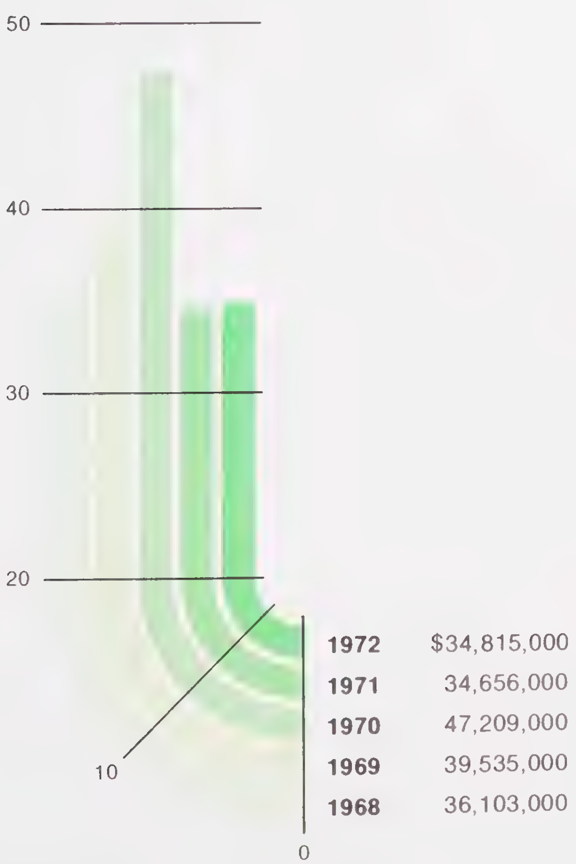



*Sale of interest in Empire State Oil Company

## USE OF FUNDS-1972

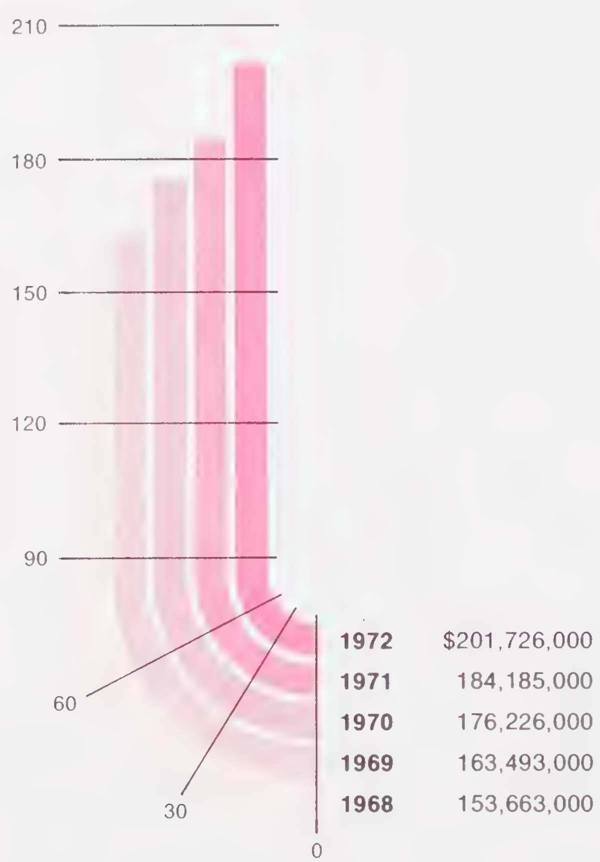

## GROWTH EXPENDITURES

MILLIONS OF DOLLARS




## GROSS OPERATING REVENUES

MILLIONS OF DOLLARS



HUSKY OIL LTD. AND SUBSIDIARIES

## Consolidated Statement of Earnings

For the year ended December 31, 1972

| | 1972 | 1971 |
|---|---|---|
| **Income:** | | |
| Sales and operating revenues | $201,726,000 | $184,185,000 |
| Equity in earnings of Empire State Oil Company | — | 1,494,000 |
| | 201,726,000 | 185,679,000 |
| **Deductions:** | | |
| Cost of sales and operating expenses | 141,625,000 | 130,746,000 |
| Selling, general and administrative expenses | 17,969,000 | 15,937,000 |
| Interest (net of interest income of $551,000 in 1972 and $805,000 in 1971) (Note 3) | 8,614,000 | 9,887,000 |
| Miscellaneous — net | 746,000 | (663,000) |
| Provision for income taxes (Note 6) | 392,000 | 72,000 |
| Depreciation and amortization | 9,919,000 | 9,845,000 |
| Depletion (Notes 1 and 2) | 9,692,000 | 8,394,000 |
| Minority interest in earnings of subsidiaries: | | |
| Preferred share dividends | 84,000 | 344,000 |
| Profits | 225,000 | 202,000 |
| | 189,266,000 | 174,764,000 |
| Net earnings before extraordinary items | 12,460,000 | 10,915,000 |
| Gain on disposal of interest in Empire State Oil Company (Note 9) | 3,191,000 | — |
| Provision for loss on disposal of briquet plant (Note 9) | (587,000) | — |
| Net earnings (Notes 2 and 6) | $ 15,064,000 | $ 10,915,000 |
| Earnings Per Common Share: (Note 7) | | |
| From operations | $1.25 | $1.09 |
| Extraordinary items | 0.28 | — |
| Total | $1.53 | $1.09 |

*See accompanying notes*

HUSKY OIL LTD. AND SUBSIDIARIES

## Consolidated Statement of Surplus

For the year ended December 31, 1972

| | Other Paid-In Capital | | Retained Earnings | |
|---|---|---|---|---|
| | 1972 | 1971 | 1972 | 1971 |
| **Balance At Beginning Of Year** (from January 1, 1963 for Retained Earnings) | $70,482,000 | $68,820,000 | $36,081,000 | $27,663,000 |
| Add: | | | | |
| Value of 300,000 stock purchase warrants attached to Series "C" debentures issued in 1971 | | 1,575,000 | | |
| Restoration of undistributable capital surplus provided for purchase and redemption of preferred shares | | | 2,783,000 | |
| Excess of provision for redemption of preferred shares over cost of shares redeemed | | | 399,000 | |
| Excess of consideration received over par value of common shares issued | 136,000 | 87,000 | | |
| Net earnings for the year | | | 15,064,000 | 10,915,000 |
| | 70,618,000 | 70,482,000 | 54,327,000 | 38,578,000 |
| Deduct: | | | | |
| Cash dividends on preferred shares | | | (644,000) | (665,000) |
| Cash dividends on common shares | | | (1,413,000) | (1,412,000) |
| Provision for redemption of preferred shares | | | (420,000) | (420,000) |
| **Balance At End Of Year** | $70,618,000 | $70,482,000 | $51,850,000 | $36,081,000 |

*See accompanying notes*

HUSKY OIL LTD. AND SUBSIDIARIES

## Consolidated Balance Sheet

December 31, 1972

| ASSETS | 1972 | 1971 |
|---|---|---|
| **Current Assets** | | |
| Cash and short term deposits | $ 4,451,000 | $ 6,379,000 |
| Accounts and notes receivable | 31,350,000 | 29,014,000 |
| Inventories at lower of cost or replacement market | 28,754,000 | 28,597,000 |
| Equipment under construction — held for sale and leaseback | — | 4,883,000 |
| Prepaid expenses | 458,000 | 400,000 |
| Total current assets | 65,013,000 | 69,273,000 |
| **Non-Current Assets** | | |
| Notes and contracts receivable, less amounts due within one year included in current assets above (including $2,286,000 in 1971 receivable from directors and officers) | 2,387,000 | 4,627,000 |
| Sundry investments and miscellaneous assets — at cost less amounts written off | 2,957,000 | 2,740,000 |
| Unrecovered costs — Santa Barbara Project (Note 2) | 7,207,000 | 7,207,000 |
| Net investment — carrying value of Empire State Oil Co. assets (Note 9) | | 22,250,000 |
| | 12,551,000 | 36,824,000 |
| **Property, Plant and Equipment** — at cost (Notes 1 and 3) | | |
| Oil and gas properties and equipment | 175,958,000 | 164,720,000 |
| Refining, manufacturing, marketing, transportation facilities and other assets | 131,502,000 | 128,285,000 |
| | 307,460,000 | 293,005,000 |
| Less — accumulated depreciation | 70,495,000 | 63,070,000 |
| — accumulated depletion | 34,489,000 | 28,136,000 |
| | 104,984,000 | 91,206,000 |
| | 202,476,000 | 201,799,000 |
| Less unpaid production payments | 6,408,000 | 8,142,000 |
| | 196,068,000 | 193,657,000 |
| **Other Assets** — at cost less amounts written off | | |
| Debt discount and expense | 4,793,000 | 4,591,000 |
| Trademarks | 599,000 | 599,000 |
| Other intangible assets | 1,642,000 | 1,316,000 |
| | 7,034,000 | 6,506,000 |
| | $280,666,000 | $306,260,000 |

## LIABILITIES

| | 1972 | 1971 |
|---|---|---|
| **Current Liabilities** | | |
| Notes payable to banks | $ 2,000,000 | $ 16,277,000 |
| Accounts payable and accrued expenses | 27,111,000 | 24,310,000 |
| Dividends payable on preferred shares | 41,000 | 46,000 |
| Current portion of long term debt | 7,079,000 | 12,641,000 |
| Total current liabilities | 36,231,000 | 53,274,000 |
| **Deferred Credits** | 3,344,000 | 4,873,000 |
| **Long Term Debt** (Note 3) | 98,252,000 | 111,144,000 |
| **Deferred Income Taxes** | 150,000 | — |
| **Minority Interest In Consolidated Subsidiary Companies** | | 6,377,000 |
| **Capital and Surplus** (Note 4) | | |
| Cumulative, redeemable, preferred shares par value $50 each; Authorized 623,550 shares; 1971, 1,000,000 shares; issued 207,763 shares; 1971, 236,513 shares | 10,388,000 | 11,826,000 |
| Common shares, par value $1 each; Authorized 40,000,000 shares; 1971, 15,000,000 shares; issued 9,434,894 shares; 1971, 9,420,912 shares | 9,435,000 | 9,421,000 |
| Undistributable capital surplus arising from purchase and redemption of preferred shares | 398,000 | 2,782,000 |
| Other paid-in capital | 70,618,000 | 70,482,000 |
| Retained earnings | 51,850,000 | 36,081,000 |
| | 142,689,000 | 130,592,000 |
| Commitments and contingencies (Note 5) | | |
| | $280,666,000 | $306,260,000 |

Approved on behalf of the Board:
Glenn E. Nielson, Director
James E. Nielson, Director

*See accompanying notes*

HUSKY OIL LTD. AND SUBSIDIARIES

## Consolidated Statement of Source and Use of Funds

For the year ended December 31, 1972

| | 1972 | 1971 |
|---|---|---|
| **Funds were obtained from:** | | |
| Net earnings | $ 15,064,000 | $ 10,915,000 |
| Add: Amounts which were non-cash transactions — net | 18,364,000 | 18,367,000 |
| Net cash income from operations | 33,428,000 | 29,282,000 |
| Sale of interest in Empire State Oil Company (Note 9) | 25,441,000 | — |
| Issue of common shares | 151,000 | 95,000 |
| Sale of assets | 5,030,000 | 3,263,000 |
| Decrease in non-current notes receivable | 2,239,000 | 2,256,000 |
| | 66,289,000 | 34,896,000 |
| **Funds were used for:** | | |
| Additions to property, plant and equipment | 28,011,000 | 29,572,000 |
| Acquisition of interests in subsidiary companies | 6,804,000 | 5,084,000 |
| Decrease (increase) in long term debt — net of additions of $29,682,000 in 1972 and $37,595,000 in 1971 | 14,661,000 | (3,890,000) |
| Retirement of preferred shares | 1,459,000 | 934,000 |
| Dividends on shares of parent company | | |
| Preferred | 644,000 | 665,000 |
| Common | 1,413,000 | 1,412,000 |
| Dividends to minority shareholders | 84,000 | 344,000 |
| Other | 430,000 | 1,526,000 |
| | 53,506,000 | 35,647,000 |
| Increase (decrease) in working capital | 12,783,000 | (751,000) |
| Working capital at beginning of year | 15,999,000 | 16,750,000 |
| Working capital at end of year | $ 28,782,000 | $ 15,999,000 |

*See accompanying notes*

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Husky Oil Ltd. and subsidiaries as at December 31, 1972, and the consolidated statements of earnings, surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustment which may result from the ultimate outcome of the litigation described in Note 2 to the consolidated financial statements, these financial statements present fairly the financial position of the company and subsidiaries as at December 31, 1972, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta

February 23, 1973.

## Notes to Consolidated Financial Statements

**1.** Accounting policies of Husky Oil Ltd. and its subsidiaries:

(i) The consolidated financial statements include the accounts of all subsidiary companies, each of which was wholly owned at December 31. The accounts of U.S. subsidiaries are included at $1 U.S. = $1 CDN.

(ii) The companies employ the "full cost" method of accounting whereby costs and expenses of exploring for and developing oil and gas reserves in North America are capitalized and are depleted on composite unit-of-production methods based on proved developed oil and gas reserves as estimated by independent or employee engineers.

Costs and expenses of acquiring oil and gas interests outside of North America have been capitalized pending the outcome of exploration in each country or area, and the costs so capitalized at December 31, 1972, amounted to $569,000. It is expected that such costs will be depleted by the method set forth above if sufficient reserves are developed. Currently, costs of unsuccessful wells and surrendered leases are charged to earnings.

The costs of certain oil and gas properties include interests in limited partnerships and the amounts of retained production payments payable solely from production. As these production payments are property interests and not a direct liability, the balances are deducted from the property, plant and equipment accounts. Production income dedicated to these payments is included in earnings on a gross basis so as to reflect the gross income and all expenses applicable to the properties

(iii) The companies follow the tax allocation basis of accounting for timing differences between net earnings and taxable income except for those differences related to intangible oil and gas exploration and development costs.

**2.** Unrecovered costs—Santa Barbara project represents the unamortized cost of oil and gas leases off the coast of California acquired in 1968. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability, regardless of fault, for damage caused by oil escaping. The Secretary also suspended drilling on these leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company of Delaware filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The trial has been held and a decision is pending. In the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time. It is contemplated that any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs in 1972, the provision for depletion for 1972 would have been increased by $852,000 and earnings decreased by a similar amount, equal to $0.09 per share.

**3.** Long term debt at December 31, 1972 consisted of:

| | Husky Oil Ltd. and Canadian Subsidiaries (Cdn. $) | Husky Oil Company of Delaware and Subsidiaries (U.S. $) |
|---|---|---|
| Sinking fund debentures | | |
| 6% Series A, 1984 . . . . . . | $13,500,000 | |
| 6¾% Series B, 1987 . . . . . | 18,500,000 | |
| 8½% Series C, 1991 . . . . . | 14,325,000 | |
| [illegible]¼% term bank loan payable monthly . . . . . . . . | 2,501,000 | $ 1,438,000 |
| 6¼% convertible subordinated debentures due 1997 (unsecured) . . . . . . . | | 25,000,000 |
| Secured notes and debentures | | |
| 5⅝% to 8½%, 1973 to 1984 . . . . . . . . | | 8,043,000 |
| 6¾% Serial First Mortgage Bonds, 1978 | | 2,715,000 |
| Other secured notes and contracts . . . . . . . . . . . | 100,000 | 771,000 |
| Unsecured notes and contracts . . . . . . . . . . . . . | | 15,612,000 |
| Long term lease obligations . . . . . . . . . . . . | | 2,826,000 |
| | 48,926,000 | 56,405,000 |
| Less amounts due in one year | 1,717,000 | 5,362,000 |
| | 47,209,000 | $51,043,000 |
| U.S. Subsidiaries . . . . . . . . . | 51,043,000 | |
| | $98,252,000 | |

Interest on long term debt in 1972 was $8,767,000. Certain properties and other assets having an aggregate cost of approximately $193,654,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations. The aggregate maturities of long term debt in each of the five years subsequent to December 31, 1972 are as follows:

| | |
|---|---|
| 1973 — $7,079,000 | 1976 — $4,364,000 |
| 1974 — $6,453,000 | 1977 — $5,335,000 |
| 1975 — $6,641,000 | |

**4.** During 1972, 13,982 common shares were issued for cash of $151,000. As at December 31, preferred shares were issued and outstanding as follows:

| | 1972 | 1971 |
|---|---|---|
| Series A — 6% | 54,563 | 56,663 |
| Series B — 6% | 153,200 | 159,050 |
| Series W, X, Y, and Z — Convertible — 4% | — | 20,800 |
| | 207,763 | 236,513 |

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share. In 1972, all of the Series W, X, Y and Z convertible preferred shares of Husky and all of the outstanding preferred shares of subsidiaries were redeemed at par at an aggregate cost of $6,130,000.

Common shares have been reserved for issue as follows:

296,948 shares for Series D stock purchase warrants at $16.50 per share, expiring June 30, 1974.

300,000 shares for Series E stock purchase warrants at exercise prices escalating from $18.00 to $21.00 per share expiring August 15, 1981.

39,720 shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share during the years 1973 to 1975. In 1972 options were exercised as to 13,770 shares for an aggregate consideration of $148,000.

1,250,000 shares for conversion of the 6¼% convertible subordinated debentures due 1997, at $20 per share.

**5.** Husky and its subsidiaries have outstanding long term lease agreements with fixed annual rentals aggregating $4,405,000, (without regard to reduction for related rental income) including $1,176,000 for royalty free oil and gas rights in the Lloydminster area. Husky has guaranteed the indebtedness of a pipeline company (of which a subsidiary is a shareholder) to a maximum of $1,500,000.

Husky and its subsidiaries had various suits and claims pending against them at December 31, 1972. While it is impossible to estimate the ultimate legal and financial liability in respect to pending litigation, Husky believes that the aggregate amount is not materially important in relation to the total assets of such companies.

**6.** For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related depletion and depreciation provisions reflected in its accounts. For 1972, the Company will claim deductions in an amount sufficient to eliminate taxable income in Canada, including an excess of tax depreciation over the book provision of approximately $400,000, resulting in a provision for deferred income taxes of $150,000. If the tax allocation basis had been followed for all timing differences between taxable income and reported income in Canada, provisions for deferred income taxes of $4,056,000 ($2,160,000 in 1971) would have been required and the cumulative amount at December 31, 1972, would have been approximately $17,217,000 (as adjusted). In the United States such deductions have been utilized to reduce estimated income taxes currently payable to $572,000 of which $242,000 is charged to operations and $330,000 is charged to extraordinary items. At December 31, 1972, expenditures remain to be carried forward and applied against taxable income as follows:

| | In Canada | In United States |
|---|---|---|
| Drilling, exploration and undeveloped lease acquisition costs | $ 7,000,000 | $14,000,000 |
| Remaining tax depreciation | $48,000,000 | $53,000,000 |

The future maximum annual deduction of such expenditures is limited under the applicable statutes.

**7.** Earnings per common share for 1972 and 1971 are based on the weighted average of shares outstanding during the year. No material dilution of earnings per share would result if all outstanding options, warrants, or conversion privileges were exercised.

**8.** The Company had 13 directors and 15 officers, 4 of whom served in both capacities. The directors' remuneration amounted to $103,000 in 1972 of which $34,000 was paid by Husky Oil Ltd. and $69,000 was paid by subsidiaries. The officers' remuneration amounted to $750,000 in 1972 and was paid or payable by subsidiaries.

**9.** On January 3, 1972, 1,073,782 common shares (55%) of Empire State Oil Company were sold for $24 (U.S.) per share, aggregating $25,771,000 in cash. The extraordinary credit from the sale amounts to $3,191,000 net of estimated income taxes of $330,000. A provision of $587,000 has been made for the anticipated loss on disposal of a briquet plant which has been inoperative since damage by fire in 1971.

On October 31, 1972, Husky Oil Ltd. agreed to exchange 112,000 of its common shares for all of the issued and outstanding capital stock of Keeter Charcoal Co. subject to certain terms and conditions. The transaction is expected to close in March, 1973 and will be accounted for on a pooling of interest basis.

# Financial and Operating Summary

## FINANCIAL

| (thousands of dollars) | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross operating revenues | $201.726 | $184,185 | $176,226 | $163,493 | $153,663 | $90,197 | $66,943 | $53,237 | $50,524 | $45,979 |
| Equity in earnings of Empire State Oil Company | — | 1,494 | 758 | — | — | — | — | — | — | — |
| | 201.726 | 185,679 | 176,984 | 163,493 | 153,663 | 90,197 | 66,943 | 53,237 | 50,524 | 45,979 |
| Costs and operating, selling and general expenses | 159.594 | 146,683 | 143,770 | 131,674 | 123,110 | 67,401 | 47,463 | 37,544 | 38,416 | 36,881 |
| Interest (net of interest income) | 8 614 | 9,887 | 9,261 | 8,264 | 6,981 | 4,486 | 3,068 | 2,101 | 1,479 | 1,432 |
| Miscellaneous — net | 746 | (663) | 702 | (558) | (262) | (55) | (100) | 320 | 201 | (207) |
| Provision for income taxes | 392 | 72 | 143 | — | — | — | — | — | — | — |
| Depreciation, depletion and amortization | 19,611 | 18,239 | 15,490 | 15,493 | 14,758 | 10,148 | 9,319 | 7,318 | 6,100 | 5,071 |
| Minority interest in earnings of subsidiaries | 309 | 546 | 644 | 755 | 780 | 617 | 680 | 852 | 809 | 569 |
| | 189,266 | 174,764 | 170,010 | 155,628 | 145,367 | 82,597 | 60,430 | 48,135 | 47,005 | 43,746 |
| Net earnings before extraordinary items | 12.460 | 10,915 | 6,974 | 7,865 | 8,296 | 7,600 | 6,513 | 5,102 | 3,519 | 2,233 |
| Extraordinary items — net | 2.604 | — | (1,711) | — | 2,123 | 708 | — | — | — | — |
| Net earnings | $ 15.064 | $ 10,915 | $ 5,263 | $ 7,865 | $ 10.419 | $ 8,308 | $ 6,513 | $ 5,102 | $ 3,519 | $ 2,233 |
| Working capital | 28.782 | 15,999 | 16,750 | 15,388 | 22,901 | 15,072 | 18,783 | 12,094 | 19,404 | 12,578 |
| Long term debt (including deferred credits) | 101.596 | 116,017 | 111,868 | 104,337 | 94,669 | 74,125 | 52,287 | 43,830 | 47,905 | 36,761 |
| Preferred shares outstanding at par value | 10.388 | 11,826 | 12,221 | 12,620 | 12,392 | 27,376 | 27,770 | 13,171 | 13,568 | 3,568 |
| Preferred share dividends | 644 | 665 | 694 | 716 | 740 | 1,616 | 1,331 | 807 | 514 | 214 |
| Number of common shares outstanding (in thousands) (average from 1968) | 9.423 | 9,416 | 9,411 | 9,405 | 8,723 | 6,644 | 6,431 | 6,244 | 6,208 | 6,169 |
| Earnings per common share after preferred dividends | | | | | | | | | | |
| From operations | $ 1.25 | $ 1.09 | $ 0.67 | $ 0.76 | $ 0.87 | $ 0.90 | $ 0.81 | $ 0.69 | $ 0.48 | $ 0.33 |
| Extraordinary items — net | 0.28 | — | (0.18) | — | 0.24 | 0.11 | — | — | — | — |
| Total | $ 1.53 | $ 1.09 | $ 0.49 | $ 0.76 | $ 1.11 | $ 1.01 | $ 0.81 | $ 0.69 | $ 0.48 | $ 0.33 |

## OPERATING

| | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Production — Daily Average** | | | | | | | | | | |
| Net crude oil and equivalent gas production — barrels | 46.663 | 42,874 | 36,971 | 35,134 | 34,299 | 29,648 | 25.532 | 20,181 | 16,765 | 12.920 |
| Crude oil and gas liquids production — barrels | 41.482 | 38,345 | 33,265 | 31,663 | 30,742 | 26,197 | 22,178 | 17,463 | 14,312 | 10,796 |
| Natural gas production — MCF | 76.539 | 67,271 | 49,293 | 46,236 | 47,571 | 45,828 | 44,518 | 35,173 | 32.000 | 27,998 |
| **Refining and Marketing — Daily Average Barrels** | | | | | | | | | | |
| Crude oil processed | 48.624 | 50,185 | 50,044 | 47,893 | 45,802 | 20,248 | 18,387 | 16,929 | 15,789 | 17,263 |
| Refined product sales | 55.330 | 53,285 | 56,961 | 52,730 | 48,662 | 21,750 | 19.323 | 18,295 | 18,343 | 19.302 |

## DIRECTORS

GLENN E. NIELSON
Cody, Wyoming
Chairman of the Board
Husky Oil Ltd.

JAMES E. NIELSON
Cody, Wyoming
President
Husky Oil Ltd.

J. WADDY BULLION
Dallas, Texas
Partner, Law firm of
Thompson Knight,
Simmons and Bullion

GEORGE S. ECCLES
Salt Lake City, Utah
President and a Director
of First Security
Corporation and First
Security Bank of Utah

PAUL L. KARTZKE
Rancho Santa Fe, Calif.
Petroleum Consultant

DAVID M. KENNEDY
Chicago, Illinois
International Banking
and Finance

ARNOLD LARSEN
Calgary, Alberta
Senior Vice President
Husky Oil Ltd.
President, Husky Oil
Operations, Ltd

J. K. McCAUSLAND
Willowdale, Ontario
Retired Investment Dealer

F. R. MATTHEWS, Q.C.
Calgary, Alberta
Partner, Law firm of
MacKimmie, Matthews

H. H. MILLAR
Edmonton, Alberta
President and a Director
of Western Construction and
Lumber Co. Ltd.

WARD C. PITFIELD
Toronto, Ontario
President and a Director
of Pitfield, Mackay,
Ross & Company, Limited

## OFFICERS

GLENN E. NIELSON
Chairman of the Board

JAMES E. NIELSON
President

ARNOLD LARSEN
Senior Vice President
Husky Oil Ltd.
President, Husky Oil
Operations, Ltd.

R. M. McMANIS
Senior Vice President

H. B. BRUMMOND
Senior Vice President

D. R. HAGERMAN
Financial Vice President,
Treasurer

G. S. DIBBLE, JR.
Vice President

J. H. MANNING
Vice President

J. V. SHEFFIELD
Vice President

R. STROTHER
Vice President

M. F. WESTFALL
Vice President

D. H. FLORA
Secretary

L. E. SAUNDERS
Controller

S. L. CATE
Chairman of the Board
Gate City Steel Corporation

M. D. ENSIGN
President
Husky Industries Inc.

## IN MEMORIAM: P. R. PAYN

1907-1973

From 1949 until his death on January 14, 1973, P. R. "Reg" Payn served as a member of the Board of Directors of Husky Oil.

As a director of W. C. Pitfield & Company Limited and former President of Pitfield, Mackay & Company Limited, Mr. Payn had played an active role in the affairs of Husky since the beginning of the company's operations in Canada.

Mr. Payn was held in high esteem, not only by his colleagues but by all who came in contact with him. His wise and valued counsel and his common sense approach to the resolution of problems contributed significantly to the growth and success of the company. His wisdom, judgment and professional ability were of inestimable value.

Our shareholders and employees have benefited immeasurably from his service as a Director of Husky, and he is greatly missed.

## HUSKY OIL

**General Office**
815 Sixth Street S.W.
Calgary 2, Alberta, Canada

**United States Offices**
Post Office Box 380
Cody, Wyoming 82414

4040 East Louisiana Ave.
Denver, Colorado 80222

**Refineries**
Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Salt Lake City, Utah

**Division Marketing Offices**

SOUTHERN REGION:
Denver, Colorado
Billings, Montana
Salt Lake City, Utah

NORTHERN REGION:
Calgary, Alberta
Winnipeg, Manitoba
Spokane, Washington

## HUSKY INDUSTRIES, INC.

62 Perimeter Center East
Atlanta, Georgia 30346

**Sales Offices:**
Minneapolis, Minnesota
Ocala, Florida
Scotia, New York

**Plant Locations:**
Bradford, Pennsylvania
Branson, Missouri
Dickinson, North Dakota
Hixton, Wisconsin
Isanti, Minnesota
Jacksonville, Florida
Ocala, Florida
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

## GATE CITY STEEL CORPORATION

P.O. Box 14022
Omaha, Nebraska 68114

**District Offices:**
Albuquerque, New Mexico
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
Salt Lake City, Utah
Sterling, Illinois

## TRANSFER AGENTS AND REGISTRARS

**Common Shares:**
Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

**Preferred Shares:**
Montreal Trust Company
At above offices

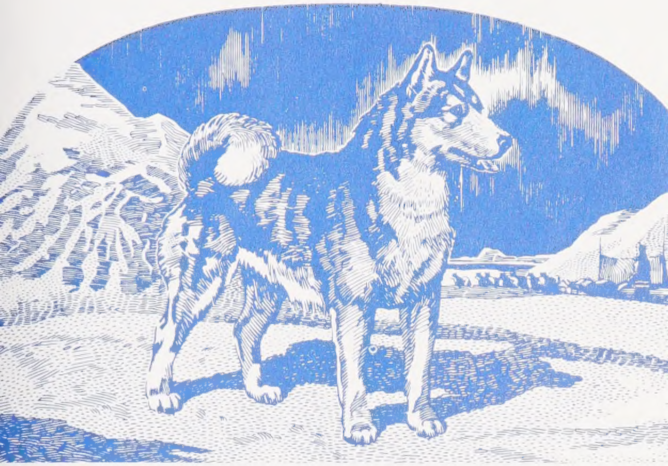
## AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Cover Printed in U.S.A.

HUSKY

HUSKY OIL 1972 ANNUAL REPORT



HUSKY OIL
*Ltd.*

# Quarterly Report
To Shareholders

Six Months Ended
June 30, 1972

815 Sixth Street S.W., Calgary, Alberta
T2P 1Y1

HUSKY

## TO THE SHAREHOLDERS:

Husky's net earnings from operations for the six months ended June 30 reached a record of $4,029,000 compared to restated earnings from operations of $3,547,000 for the similar period in 1971. This year's six months' earnings before extraordinary items were equivalent to 39 cents per share up 15 per cent from the 34 cents per share earned for the same period last year.

The company's record sales and operating revenues to June 30 this year totalled $90,444,000 as compared to $85,747,000 for the similar period last year. Cash flow from operations for the first six months of this year was $13,905,000 an increase of 15 per cent.

A special credit estimated at $3,200,000 after taxes, or 34 cents per share, arising from the sale of Empire State Oil Co. shares in 1972 is not reflected in the above comparison of operating earnings.

Previously reported unaudited earnings for the first six months of 1971 have been restated to reflect an audit adjustment of $200,000 as a result of the transfer of an expense in that amount from the third quarter to the first six months of last year. Sales and costs and production volumes for 1971 have also been restated to reflect a deconsolidation of Empire State accounts to include only Husky's equity interest in Empire's profit.

The increases in sales revenues and operating profits were due largely to increased production of oil and gas in Canada, improved refining and marketing operations, higher asphalt sales volumes, and an improvement in the profits from steel operations.

Changes in Husky's capital structure in the second quarter resulted in an increase in authorized common shares from 15 million to

## HUSK
and

## FINANCIAL AND

### For the Six Mont
(with compa

**FINANCIAL**

Income
Sales and operating revenues . . . .
Equity in earnings of Empire State Oil Co

Deductions
Cost of sales and operating expenses .
Selling, general and administrative expens
Interest (net of interest income of
$292,000 in 1972 and $395,000 in 197
Miscellaneous — net . . . . . .
Provision for U.S. income taxes . . .
Depreciation and amortization . . . .
Depletion . . . . . . . . . .
Minority interest in earnings of subsidiaries
Preferred share dividends . . . .
Profits . . . . . . . . . .

Net earnings before extraordinary credit
(per share: 1972 - $0.39; 1971 - $0.34)
Gain on disposal of interest in Empire State
Oil Company (per share $0.34) . . .
Net earnings (per share: 1972 - $0.73;
1971 - $0.34) . . . . . . . . .

**OPERATING (Daily Averages)**

Crude oil and equivalent gas
production — bbls. . . . . . . .
Crude oil and gas liquids — bbls. . .
Natural gas — mcf . . . . . . .
Refining throughput — bbls. . . . . .
Refined product sales — bbls. . . . .

Notes:
(1) Figures for 1972 are unaudited and accounts
(2) Financial and operating figures for 1971 hav
Empire State Oil Company, and the substitution
(3) The restated results for 1971 reflect an audit a
30, 1971.

## OIL LTD.

### osidiaries

### ERATING SUMMARY

### Ended June 30, 1972

e figures for 1971)

| | 1972 | 1971 | Increase (Decrease) % |
|---|---|---|---|
| . | $90,444,000 | $85,747,000 | 5 |
| ny | — | 817,000 | — |
| | 90,444,000 | 86,564,000 | 4 |
| . | 63,267,000 | 61,626,000 | 3 |
| . | 8,722,000 | 7,854,000 | 11 |
| . | 4,429,000 | 4,559,000 | (3) |
| . | 101,000 | (100,000) | — |
| . | 113,000 | 18,000 | — |
| . | 5,024,000 | 4,717,000 | 7 |
| . | 4,549,000 | 4,059,000 | 12 |
| . | 84,000 | 178,000 | (53) |
| . | 126,000 | 106,000 | 19 |
| | 86,415,000 | 83,017,000 | 4 |
| . | 4,029,000 | 3,547,000 | 14 |
| . | 3,200,000 | — | — |
| . | $ 7,229,000 | $ 3,547,000 | — |
| . | 44,784 | 42,126 | 6 |
| . | 39,272 | 37,630 | 4 |
| . | 81,462 | 66,833 | 22 |
| . | 46,879 | 49,991 | (6) |
| . | 44,612 | 46,018 | (3) |

.S. subsidiaries are included at $1 U.S. = $1 Canadian.
en restated to reflect the deconsolidation of the accounts of
Husky's equity in the net earnings of Empire.
ent relating to a legal claim of $200,000 settled after June

40 million, the cancellation of 355,160 series A, B and C preferred shares previously redeemed through sinking funds or out of capital by Husky Oil Ltd., and the redemption of all outstanding preferred shares of subsidiary companies at par.

The company's production of crude oil and equivalent gas increased an average of 2,700 barrels a day to a total of 44,800 barrels a day.

Refinery throughput was 47,000 barrels a day and refined product sales were 44,600 barrels a day, while asphalt sales rose to 1,678,000 barrels from 1,444,000 barrels for the 1971 period.

In North Sea operations the company has expanded its sphere of activity into offshore German waters where a seismic survey was completed during July on a block of 115,000 acres located 50 miles to the southeast of the Dan oilfield. Husky has a 12½ per cent interest in this venture.

In the United States, Husky and its partners have concluded a farmout arrangement involving 26,000 acres in the Wattenburg field, located a few miles to the north of the City of Denver. Initially 25 wells will be drilled free to Husky and options could increase this number to 81 wells. Husky has a three-eighths interest in the acreage.

Gate City Steel Corporation, 87.8 per cent owned by Husky, reported earnings of $1,043,000 for the first six months of 1972 from total sales of $15,468,000, an increase of eight per cent over the total revenue figure for the first half of 1971. The 1972 figures do not include heavy fabrication sales as Gate City Steel has discontinued this area of its operation.

The elimination of the unprofitable heavy fabrication business has been an important factor in Gate City's profit increase in 1972 of 33 per cent over 1971. At the present time 90 per cent of sales are from steel service centers, 7 per cent from rebar fabrication, and 3 per cent from steel erection. It is significant to

note that the loss of heavy fabrication sales has already been compensated for by increases in the steel service center area.

Husky Industries' cash operating income for the first half of 1972 was 68 per cent over the same period in 1971. The principal reason for the increase is the continued rapid expansion of the charcoal consumer markets serviced by increased plant capacity. Because 85 per cent of sales and manufacturing facilities are east of the Mississippi, Husky Industries has announced the relocation of its corporate offices to Atlanta, Georgia. The move will be effective September 1st and will consolidate certain major operations.

The company expects a regularly expanding market, over both the short and long term, for its production of activated char widely used in pollution control activities.

Mid-year results have not historically reflected Husky's full year's performance due to the seasonal character of some of the company's operations which usually result in a concentration of their earnings in the third quarter. 1971 was a record year with notable historic highs in total sales and revenue, in cash flow and in net earnings from operations; your management expects to match that record performance again in 1972.

Sincerely,

Gene E. Roark

Gene E. Roark, President

August 10, 1972

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LITHOGRAPHED IN CANADA

AR28

## HUSKY OIL LTD.
### and Subsidiaries

## CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

### For the Six Months Ended June 30, 1972
(with comparative figures for 1971)

| | 1972 | 1971 |
|---|---|---|
| **Funds were obtained from** | | |
| Net earnings | $ 7,229,000 | $ 3,547,000 |
| Less gain on disposal of interest in Empire State Oil Company | 3,200,000 | — |
| | 4,029,000 | 3,547,000 |
| Add non-cash items — net | 9,876,000 | 8,502,000 |
| Net cash income from operations | 13,905,000 | 12,049,000 |
| Sale of interest in Empire State Oil Company | 25,450,000 | — |
| Issue of common shares | 9,000 | 50,000 |
| Sale of assets | 1,689,000 | 1,587,000 |
| Decrease in non-current notes receivable | 734,000 | 718,000 |
| | 41,787,000 | 14,404,000 |
| **Funds were used for** | | |
| Additions to property, plant and equipment | 13,204,000 | 16,466,000 |
| Decrease (increase) in long term debt — net of additions of $27,477,000 in 1972 and $20,194,000 in 1971 | 6,221,000 | (10,693,000) |
| Reduction of minority interest in a subsidiary company | — | 5,045,000 |
| Retirement of preferred shares | 6,429,000 | 870,000 |
| Dividends on shares of parent company | | |
| Preferred | 328,000 | 335,000 |
| Common | 707,000 | 706,000 |
| Dividends to minority shareholders | 84,000 | 178,000 |
| Other | 76,000 | 94,000 |
| | 27,049,000 | 13,001,000 |
| Increase in working capital | $14,738,000 | $ 1,403,000 |

See footnotes to the Financial and Operating Summary